

American Community Developers, Inc.

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Remarks regarding:

Michigan State Housing Development Authority
Information Forum Regarding the
Michigan Qualified Allocation Plan

From

Gerald A. Krueger
President

Background

American Community Developer, Inc's ("ACD") portfolio includes 50 properties, including 35 financed with LIHTC. ACD has filed LIHTC applications in 9 states, successful in 8 states.

I have served as a committee member on the 5-Year Action Plan that addressed specific QAP recommendations.

5-Year Action Plan

1. Preservation Committee
 2. Began June, 2005 through February 2006
 3. Participants were a cross section of the most interested parties
- MSHDA -Donna McMillan
-Mary Levine
-Charlene Johnson
-John Hundt
 - HUD -Susie Sapilewski
 - RD -Karrie Sayer
 - Equity -Jennifer Everhardt

- Owners -Marv Veltkamp
- Joe Hollander
- Jerry Krueger

Final Recommendation Summary

1. More inter-agency cooperation and communication.
2. Funding priorities and target resources.
3. Strategy for quality of property and asset management.
4. Advocate legislation to increase preservation of affordable housing.

These were specific QAP Recommendations under item #2 above.

- A) Increase preservation set aside to 35%
- B) Limited preservation projects to \$500,000/year in LIHTC (or comparable per/unit amount)
- C) Waive certain third-party reports (market studies) (or permit "short form" reports)
- D) Eliminate application points for scarce resources (HOME, CDBG, CIP, AHP)
- E) Support continuation of fair and equitable selection system such as lottery process

Comments these items:

A) Increase preservation

-35% was determined approximately 18 months ago
 -Probably should be increased to 50%
 -Still need for new constructions special situations
 General statement (big picture): we don't need more housing units now

Now:	Pres	30%	Future:	Pres	50%
	Small	10%		Small	10%
	S.N.	15%		S.N.	15%
	General	40%		General	20%
	Cool	5%		Cool	5%
		<u>100%</u>			<u>100%</u>

B) Limit projects to \$500k/year in LIHTC

Minimum Rehab = \$5k/unit or more (for General Pool)
 Minimum Pres = \$10/unit or more (for Preservation Pool)

Limited Pres = \$25k/unit in hard costs. Projects needing more than that are not "Preservation Projects" but should be submitted in the General Pool or seek 4% financing and LIHTC.

Trend in preservation pool toward larger deals requesting all the resources

	#	>\$600k	T. Req.	Avail.	Blg.	%	
6/05	16	3	6.1	4.3	3.4	55%	
11/05	20	4	6.9	4.1	3.5	51%	
5/06	15	5	7.1	2.9	4.5	63%	
10/06	23	5	9.6	2.9	4.5	47%	
	74	17	22%	29.7	14.2	15.9	54%

The statistics above indicate that by limiting a preservation project to ~~\$60k~~ ^{\$600k}/ year in LIHTC, virtually every development requesting less than \$600k/year in LIHTC would be funded.

C) Waiver Third party reports (for Preservation projects)

- Zoning confirmation? (pg. 10 #2)
- Market study if Section 8? (pg. 10 #5)
- Utility verification (pg. 10 #2)
- LOI from syndicator? (pg. 18 #4, #5)

Change the "stale date" to 12 months for

- Environmental
- Market study
- Title Insurance Commitment (pg. 10 of QAP #8)

D) Counter Intuitive

The QAP should not be rewarding projects that need more resources than those that do not. By awarding bonus points for PILOT or other State or Federal financing, the QAP is saying that MSHDA would rather finance a project with PILOT and an AHP Grant, than funding a project that does need these resources (and save those funds for projects that really need them).

- See Tax Abatement (pg. I-9)
- See State, Local, Federal Funding (pg. I-10)

E) Lottery

1. An applicant no longer has to "chase points" in an effort to maximize the potential for funding. One of the point categories (up to 10 points) is for "Federal, State or Local Funding". In the pre-lottery days, one would apply for a minimal amount of HOME or other qualified funds (even if the project could do without) so that you would be awarded the bonus points. This creates more work and fighting for these scarce resources just to receive LIHTC points. Although state officials say they don't like applicants to chase points, the old system mandates you do so to be successful. The current lottery system does not require you obtain every conceivable possible point (and therefore allows only those projects that really need the HOME or FHLB funds to request them).
2. The old system stresses the viability of the applicant projects to the absolute feasible limit. In the pre-lottery days, one would target the lowest population and select other project characteristics that would score the most possible points to a point of near recklessness. (Syndicators have mentioned this exact point on panels at conferences). In the current system, once you are over the minimum threshold points you can evaluate the merits of each option based on the economics of the project relative to long-term success. Although an observer might not see this in the initial years of a project's life, the stressing of the project to get points up front often will show up as troubled property in the long term.

Other Comments:

On Funding Rounds

- 2 per year (1 per year is not sufficient, 3 is too many)
- March 15 and September 15 (or similar)

On the Review Process

Conduct lottery within 3 days of submission date

Pg. 7 - "To determine the order in which applications meeting the threshold score will be evaluated..." "The Authority will evaluate applications representing

approximately 150% of the available credit (for each set aside)..."

On Pre-Review

Pg. 9 - Environmental, Market Study, Special Needs exhibits, or LIHTC Application

- "Must be submitted at least 30 days prior to application..."
- Authority should be required to respond and note deficiencies for any reports within the 30 days or they are deemed accepted for next funding round.